

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan  
71-1060

GENERAL PURPOSE FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

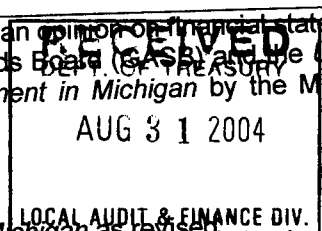
Year Ended March 31, 2004

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Krakow	<b>County</b> Presque Isle
<b>Audit Date</b> March 31, 2004	<b>Opinion Date</b> August 4, 2004	<b>Date Accountant Report Submitted to State:</b> August 4, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |  |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).   |

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686	<b>City</b> Bay City	<b>State</b> MI	<b>Zip</b> 48707
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

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# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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## **INDEPENDENT AUDITOR'S REPORT**

August 4, 2004

To the Township Board  
Township of Krakow  
Presque Isle County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Krakow, Presque Isle County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Krakow's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Krakow, Presque Isle County, Michigan, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Krakow, Presque Isle County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS  
March 31, 2004 EXHIBIT A

	<u>Governmental</u> <u>Fund Type</u> <u>General</u>	<u>Fiduciary</u> <u>Fund Type</u> <u>Agency</u>	<u>Account Group</u> <u>General</u> <u>Fixed Assets</u>
<u>Assets</u>			
Cash in bank	4 861 48	106 26	-
Investments	179 343 28	-	-
Taxes receivable	6 818 05	-	-
Special assessment receivable	15 258 18	-	-
Due from other funds	106 26	-	-
Land and land improvements	-	-	27 515 91
Building	-	-	68 658 29
Equipment	-	-	15 029 02
Total Assets	<u>206 387 25</u>	<u>106 26</u>	<u>111 203 22</u>
<u>Liabilities and Fund Equity</u>			
Liabilities:			
Due to other funds	-	106 26	-
Deferred revenue	15 258 18	-	-
Total liabilities	<u>15 258 18</u>	<u>106 26</u>	<u>-</u>
Fund equity:			
Investment in general fixed assets	-	-	111 203 22
Fund balances:			
Unreserved:			
Undesignated	191 129 07	-	-
Total fund equity	<u>191 129 07</u>	<u>-</u>	<u>111 203 22</u>
Total Liabilities and Fund Equity	<u>206 387 25</u>	<u>106 26</u>	<u>111 203 22</u>

The accompanying notes are an integral part of these financial statements.

Total  
(Memorandum  
Only)

---

4 967 74  
179 343 28  
6 818 05  
15 258 18  
106 26  
27 515 91  
68 658 29  
15 029 02

317 696 73

106 26  
15 258 18  
15 364 44

111 203 22

191 129 07  
302 332 29

317 696 73

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B  
Page 1

	<u>Total (Memorandum Only) General Fund</u>
Revenues:	
Property taxes	38 918 82
Other taxes	6 004 49
Licenses and permits	1 350 00
State revenue sharing	47 687 87
Charges for services:	
Property tax administration	11 589 70
Transfer station	17 605 45
Interest	890 61
Special assessments	3 030 23
Miscellaneous	<u>668 12</u>
Total revenues	<u>127 745 29</u>
Expenditures:	
Legislative:	
Township Board	16 630 53
General government:	
Supervisor	5 537 69
Elections	342 56
Assessor	12 475 00
Clerk	5 470 00
Board of Review	673 93
Treasurer	6 210 69
Building and grounds	3 682 68
Public safety:	
Ordinance officer	600 00
Fire protection	10 088 60
Planning and zoning	3 946 25
Public works:	
Highways and streets	1 000 00
Street lighting	771 39
Sanitation	<u>19 425 27</u>
Total expenditures	<u>86 854 59</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B  
Page 2

	Total (Memorandum Only) <u>General Fund</u>
Excess of revenues over expenditures	40 890 70
Fund balance, April 1	<u>150 238 37</u>
Fund Balance, March 31	<u><u>191 129 07</u></u>

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

EXHIBIT C  
Page 1

Year Ended March 31, 2002

	General Fund		
	Budget	Actual	Over (Under) Budget
Revenues:			
Property taxes	37 300 00	38 918 82	1 618 82
Other taxes	6 000 00	6 004 49	4 49
Licenses and permits	300 00	1 350 00	1 050 00
State revenue sharing	45 500 00	47 687 87	2 187 87
Charges for services:			
Property tax administration	12 000 00	11 589 70	(410 30)
Transfer station	20 000 00	17 605 45	(2 394 55)
Interest	800 00	890 61	90 61
Special assessments	2 720 00	3 030 23	310 23
Miscellaneous	350 00	668 12	318 12
Total revenues	<u>124 970 00</u>	<u>127 745 29</u>	<u>2 775 29</u>
Expenditures:			
Legislative:			
Township Board	25 335 00	16 630 53	(8 704 47)
General government:			
Supervisor	5 960 00	5 537 69	(422 31)
Elections	2 875 00	342 56	(2 532 44)
Assessor	12 575 00	12 475 00	(100 00)
Clerk	5 710 00	5 470 00	(240 00)
Board of Review	1 200 00	673 93	(526 07)
Treasurer	6 560 00	6 210 69	(349 31)
Building and grounds	7 750 00	3 682 68	(4 067 32)
Public safety:			
Ordinance officer	700 00	600 00	(100 00)
Fire protection	15 000 00	10 088 60	(4 911 40)
Planning and zoning	5 300 00	3 946 25	(1 353 75)
Public works:			
Highways and streets	75 000 00	1 000 00	(74 000 00)
Street lighting	1 200 00	771 39	(428 61)
Sanitation	31 340 00	19 425 27	(11 914 73)
Other:			
Contingency	<u>25 000 00</u>	<u>-</u>	<u>(25 000 00)</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND  
Year Ended March 31, 2004

EXHIBIT C  
Page 2

	<u>General Fund</u>		<u>Over (Under) Budget</u>
	<u>Budget</u>	<u>Actual</u>	
Total expenditures	<u>221 505 00</u>	<u>86 854 59</u>	<u>(134 650 41)</u>
Excess (deficiency) of revenues over expenditures	(96 535 00)	40 890 70	137 425 70
Fund balance, April 1	<u>145 822 94</u>	<u>150 238 37</u>	<u>4 415 43</u>
Fund Balance, March 31	<u><u>49 287 94</u></u>	<u><u>191 129 07</u></u>	<u><u>141 841 13</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Krakow, Presque Isle County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Krakow. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

Governmental Fund

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Account Group

General Fixed Assets Account Group

This account group presents the fixed assets of the local unit utilized in its general operations.

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2003 Township tax roll millage rate was 1.0000 mills and the taxable value was \$38,918,820.00.

Fixed Assets

Purchases of fixed assets for all funds are recorded as expenditures in their respective funds at the time of purchase. They are also recorded at cost in the General Fixed Assets Group of Accounts as required by generally accepted accounting principles.

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

Note 2 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 2 – Deposits and Investments (continued)

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>4 967 74</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	5 106 26
Uninsured and Uncollateralized	<u>-</u>
Total Deposits	<u>5 106 26</u>

The Township's investments are categorized below to give an indication of the level of risk assumed by the Township. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Township or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Township's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Township's name.

The GASB Statement No. 3 risk disclosures for the Township's investments are categorized as follows:

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>
<u>Investment Type</u>				
Risk-Categorized:				
Operating Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Risk-Categorized Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 2 – Deposits and Investments (continued)

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>
Nonrisk-Categorized:				
Financial Institution				
Pooled Funds				<u>179 343 28</u>
Total Investments				<u>179 343 28</u>

The financial institution pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

Note 3 – Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
Land and land improvements	27 515 91	-	-	27 515 91
Building	68 658 29	-	-	68 658 29
Equipment	<u>15 029 02</u>	<u>-</u>	<u>-</u>	<u>15 029 02</u>
Totals	<u>111 203 22</u>	<u>-</u>	<u>-</u>	<u>111 203 22</u>

Note 4 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>106 26</u>	Current Tax Collection	<u>106 26</u>

Note 5 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.



TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 6 – Pension Plan

The Township has a defined contribution pension plan covering all full time employees. The Township contributes an amount of each employees' annual salary to the plan. Pension expense for the fiscal year ended March 31, 2004, was \$1,801.22.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Krakow does not issue building permits. Building permits are issued by the County of Presque Isle.

Note 9 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2004

EXHIBIT D  
Page 1

Township Board:

Salaries	2 610 00
Pension	1 801 22
Social security	677 33
Office supplies	554 39
Postage	2 327 41
Telephone	375 39
Mileage	174 34
Printing and publishing	1 880 35
Insurance and bonds	1 858 05
Dues	1 109 05
Legal	2 745 00
Miscellaneous	518 00
	<u>16 630 53</u>

Supervisor:

Salary	4 710 00
Deputy	160 00
Mileage	67 69
Miscellaneous	600 00
	<u>5 537 69</u>

Elections:

Wages	180 00
Supplies	54 68
Mileage	107 88
	<u>342 56</u>

Assessor:

Salary	12 000 00
Supplies	475 00
	<u>12 475 00</u>

Clerk:

Salary	4 710 00
Deputy	160 00
Pension and FICA administration	600 00
	<u>5 470 00</u>

Board of Review:

Wages	545 00
Printing and publishing	128 93
	<u>673 93</u>

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2004

EXHIBIT D  
Page 2

Treasurer:	
Salary	5 310 00
Deputy	160 00
Mileage	740 69
	<u>6 210 69</u>
Building and grounds	
Salary	1 438 00
Operating supplies	79 66
Utilities	1 395 87
Repairs and maintenance	769 15
	<u>3 682 68</u>
Ordinance officer:	
Wages	<u>600 00</u>
Fire protection:	
Contracted services	<u>10 088 60</u>
Planning and zoning:	
Salaries	<u>3 946 25</u>
Highways and streets:	
Contracted services	<u>1 000 00</u>
Street lighting:	
Utilities	<u>771 39</u>
Sanitation:	
Wages	4 560 00
Contracted services	11 615 62
Utilities	1 162 72
Telephone	359 99
Supplies	469 99
Insurance and bonds	1 256 95
	<u>19 425 27</u>
Total Expenditures	<u><u>86 854 59</u></u>

TOWNSHIP OF KRAKOW  
Presque Isle County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year Ended March 31, 2004

EXHIBIT E

	<u>Balance</u> <u>4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/04</u>
<u>Assets</u>				
Cash in bank	<u>105 20</u>	<u>1 072 985 76</u>	<u>1 072 984 70</u>	<u>106 26</u>
<u>Liabilities</u>				
Due to other funds	105 20	47 038 79	47 037 73	106 26
Due to other taxing units	<u>-</u>	<u>1 025 946 97</u>	<u>1 025 946 97</u>	<u>-</u>
Total Liabilities	<u>105 20</u>	<u>1 072 985 76</u>	<u>1 072 984 70</u>	<u>106 26</u>

# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

**RECEIVED**  
DEPT. OF TREASURY

AUG 3 1 2004

LOCAL AUDIT & FINANCE DIV.

August 4, 2004

To the Township Board  
Township of Krakow  
Presque Isle County, Michigan

We have audited the financial statements of the Township of Krakow, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of Krakow in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

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For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

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### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of Krakow will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

#### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants